



JOHN CHIANG
California State Controller

March 24, 2014

Arturo Delgado, Ed.D
Superintendent of Schools
Los Angeles County Office of Education
9300 Imperial Hwy
Downey, CA 90242

Dear Dr. Delgado:

The State Controller's Office reviewed the costs claimed by the Los Angeles County Office of Education (LACOE) for the legislatively mandated Collective Bargaining Program (Chapter 961, Statutes of 1975, and Chapter 1213, Statutes of 1991) for the period of July 1, 2008, through June 30, 2012. We conducted our review under the authority of Government Code sections 12410, 17558.5, and 17561. Our review was limited to ensuring that direct and indirect costs were properly reported in accordance with program requirements.

The LACOE claimed \$587,957 for the mandated program. Our review found that \$481,928 is allowable and \$106,029 is unallowable. The costs are unallowable because the LACOE did not offset its Winton Act base-year costs against its current-year Rodda Act direct costs for fiscal year (FY) 2008-09 through FY 2011-12, and did not claim indirect costs on contract services for FY 2008-09 and FY 2009-10, as described in the attached Summary of Program Costs, and Finding and Recommendation.

For the FY 2008-09 and FY 2009-10 claims, the State paid the LACOE \$41,186. Our review found that \$354,236 is allowable. The State will pay allowable costs claimed that exceed the amount paid, totaling \$313,050, contingent upon available appropriations.

For the FY 2010-11 and FY 2011-12 claims, the State made no payment to the LACOE. Our review found that \$127,692 is allowable. The State will pay that amount, contingent upon available appropriations.

We informed Dr. Alex Cherniss, Chief Financial Officer, of the review adjustment via email on February 21, 2014. We did not receive a response from the district.

If you disagree with the review findings, you may file an Incorrect Reduction Claim (IRC) with the Commission on State Mandates (CSM). The IRC must be filed within three years following the date that we notify you of a claim reduction. You may obtain IRC information at the CSM's website at www.csm.ca.gov/docs/IRCForm.pdf.

Arturo Delgado, Ed.D,
Superintendent of Schools

-2-

March 24, 2014

If you have any questions, please contact Jim L. Spano, Chief, Mandated Cost Audits Bureau, by phone at (916) 323-5849.

Sincerely,

Original Signed By

JEFFREY V. BROWNFIELD, CPA
Chief, Division of Audits

JVB/kw

Attachments

RE: S14-MCC-937

cc: Alex Cherniss, Ed.D., Chief Financial Officer
Los Angeles County Office of Education
Peter Foggiato, Director
California Department of Education
Carol Bingham, Government Affairs Division
California Department of Education
Thomas Todd, Assistant Program Budget Manager
Education Systems Unit, California Department of Finance
Jay Lal, Manager
Division of Accounting and Reporting
State Controller's Office

Attachment 1— Summary of Program Costs July 1, 2008, through June 30, 2012

Cost Elements	Actual Costs Claimed	Allowable per Review	Review Adjustment	Reference ¹
<u>July 1, 2008, through June 30, 2009</u>				
Direct costs:				
Component activities G1 through G3:				
Salaries and benefits	\$ 140,186	\$ 140,186	\$ —	
Materials and supplies	12,286	12,286	—	
Contract services	29,751	29,751	—	
Subtotal	182,223	182,223	—	
Less base-year direct costs adjusted by the implicit price deflator	—	(24,532)	(24,532)	Finding 1
Increased direct costs, G1 through G3	182,223	157,691	(24,532)	
Component activities G4 through G7:				
Salaries and benefits	6,845	6,845	—	
Contract services	4,220	4,220	—	
Increased direct costs, G4 through G7	11,065	11,065	—	
Total increased direct costs, G1 through G7	193,288	168,756	(24,532)	
Indirect costs	16,250	17,213	963	Findings 1, 2
Total program costs	<u>\$ 209,538</u>	185,969	<u>\$ (23,569)</u>	
Less amount paid by the State		(25,948)		
Allowable costs claimed in excess of (less than) amount paid		<u>\$ 160,021</u>		
<u>July 1, 2009, through June 30, 2010</u>				
Direct costs:				
Component activities G1 through G3:				
Salaries and benefits	\$ 176,327	\$ 176,327	\$ —	
Materials and supplies	353	353	—	
Contract services	3,420	3,420	—	
Subtotal	180,100	180,100	—	
Less base-year direct costs adjusted by the implicit price deflator	—	(24,804)	(24,804)	Finding 1
Increased direct costs, G1 through G3	180,100	155,296	(24,804)	
Component activities G4 through G7:				
Salaries and benefits	—	—	—	
Contract services	810	810	—	
Increased direct costs, G4 through G7	810	810	—	
Total increased direct costs, G1 through G7	180,910	156,106	(24,804)	
Indirect costs	13,763	12,161	(1,602)	Findings 1, 2
Total program costs	<u>\$ 194,673</u>	168,267	<u>\$ (26,406)</u>	
Less amount paid by the State		(15,238)		
Allowable costs claimed in excess of (less than) amount paid		<u>\$ 153,029</u>		

Attachment 1 (continued)

Cost Elements	Actual Costs Claimed	Allowable per Review	Review Adjustment	Reference ¹
<u>July 1, 2010, through June 30, 2011</u>				
Direct costs:				
Component activities G1 through G3:				
Salaries and benefits	\$ 98,430	\$ 98,430	\$ —	
Materials and supplies	509	509	—	
Contract services	3,510	3,510	—	
Subtotal	102,449	102,449		
Less base-year direct costs adjusted by the implicit price deflator	—	(25,385)	(25,385)	Finding 1
Increased direct costs, G1 through G3	102,449	77,064	(25,385)	
Component activities G4 through G7:				
Salaries and benefits	1,622	1,622	—	
Contract services	101	101	—	
Increased direct costs, G4 through G7	1,723	1,723	—	
Total increased direct costs, G1 through G7	104,172	78,787	(25,385)	
Indirect costs	8,136	6,154	(1,982)	Finding 1
Total program costs	<u>\$ 112,308</u>	84,941	<u>\$ (27,367)</u>	
Less amount paid by the State		—		
Allowable costs claimed in excess of (less than) amount paid		<u>\$ 84,941</u>		
<u>July 1, 2011, through June 30, 2012</u>				
Direct costs:				
Component activities G1 through G3:				
Salaries and benefits	\$ 65,354	\$ 65,354	\$ —	
Contract services	—	—	—	
Subtotal	65,354	65,354	—	
Less base-year direct costs adjusted by the implicit price deflator	—	(26,244)	(26,244)	Finding 1
Increased direct costs, G1 through G3	65,354	39,110	(26,244)	
Total increased direct costs, G1 through G7	65,354	39,110	(26,244)	
Indirect costs	6,084	3,641	(2,443)	Finding 2
Total program costs	<u>\$ 71,438</u>	42,751	<u>\$ (28,687)</u>	
Less amount paid by the State		—		
Allowable costs claimed in excess of (less than) amount paid		<u>\$ 42,751</u>		
<u>Summary: July 1, 2008, through June 30, 2012</u>				
Total increased direct costs, G1 through G7	\$ 543,724	\$ 442,759	\$ (100,965)	
Indirect costs	44,233	39,169	(5,064)	
Total program costs	<u>\$ 587,957</u>	481,928	<u>\$ (106,029)</u>	
Less amount paid by the State		(41,186)		
Allowable costs claimed in excess of (less than) amount paid		<u>\$ 440,742</u>		

¹ See Attachment 2, Findings and Recommendations.

Attachment 2— Findings and Recommendations July 1, 2008, through June 30, 2012

Background

In 1975, the State enacted the Rodda Act (Chapter 961, Statutes of 1975), requiring the employer and employee to meet and negotiate, thereby creating a collective bargaining atmosphere for public school employers. The legislation created the Public Employment Relations Board to issue formal interpretations and rulings regarding collective bargaining under the Rodda Act. In addition, the legislation established organizational rights of employees and representational rights of employee organizations, and recognized exclusive representatives related to collective bargaining.

On July 17, 1978, the Board of Control (now the Commission on State Mandates [CSM]) determined that the Rodda Act imposed a state mandate upon school districts reimbursable under Government Code section 17561.

Chapter 1213, Statutes of 1991, added Government Code section 3547.5 requires school districts to publicly disclose major provisions of a collective bargaining effort before the agreement becomes binding. On August 20, 1998, the CSM determined that this legislation also imposed a state mandate upon school districts reimbursable under Government Code section 17561.

Claimants are allowed to claim increased costs. For components G1 through G3, increased costs represent the difference between the current-year Rodda Act activities and the base-year Winton Act activities (generally, fiscal year [FY] 1974-75), as adjusted by the implicit price deflator. For components G4 through G7, increased costs represent actual costs incurred.

The program's parameters and guidelines establish the state mandate and define the reimbursement criteria. The CSM adopted the parameters and guidelines on October 22, 1980, and amended them ten times, most recently on January 29, 2010.

In compliance with Government Code section 17558, the State Controller's Office issues claiming instructions to assist school districts in claiming mandated program reimbursable costs.

The following findings are the result of our review of the mandated cost claims filed for the legislatively mandated Collective Bargaining Program for the period of July 1, 2008, through June 30, 2012.

**FINDING 1—
Unreported Winton Act
base-year direct costs
and related indirect
costs**

The district did not report any Winton Act direct costs on its mandated cost claims for FY 2008-09 through FY 2011-12. Specifically, the district did not offset the Winton Act base-year costs against the current-year Rodda Act costs for components G1 through G3, thus understating the Winton Act base-year costs by \$100,965 for the review period. Unallowable related indirect costs total \$8,859.

The following table summarizes the unreported Winton Act base-year cost adjustment by fiscal year:

Winton Act Base Year Costs	Fiscal Year				Total
	2008-09	2009-10	2010-11	2011-12	
Winton Act base-year costs, FY 1995-96	\$ (5,539)	\$ (5,539)	\$ (5,539)	\$ (5,539)	
Implicit price deflator (IPD)	x 4.429	x 4.478	x 4.583	x 4.738	
Winton Act base-year costs adjusted by the IPD	(24,532)	(24,804)	(25,385)	(26,244)	\$ (100,965)
Less reported Winton Act base-year costs	—	—	—	—	—
Unreported Winton Act base-year costs adjusted by the IPD	(24,532)	(24,804)	(25,385)	(26,244)	(100,965)
Indirect cost rate	10.20%	7.79%	7.81%	9.31%	
Related indirect cost adjustment	(2,502)	(1,932)	(1,982)	(2,443)	(8,859)
Review adjustment	\$ (27,034)	\$ (26,736)	\$ (27,367)	\$ (28,687)	\$ (109,824)

The parameters and guidelines (Section H – Supporting Data for Claims – Report Format for Submission of Claim) state:

- a. For component activities G1, G2, and G3:
 1. Determination of the “increased costs” for each of these three components requires the costs of current year Rodda Act activities to be offset [reduced] by the cost of the base-year Winton Act activities. The Winton Act base-year is generally fiscal year 1974-75.

Winton Act base-year costs are adjusted by the Implicit Price Deflator prior to offset against the current year Rodda Act costs for these three components. The Implicit Price Deflator shall be listed in the annual claiming instructions of the State Controller.

The Winton Act base-year costs were obtained from the FY 1995-96 claim the district submitted to the SCO’s Division of Accounting and Reporting. The implicit price deflator (IPD) is reported in the SCO’s annual claiming instructions.

Recommendation

We recommend that the district ensure that all Winton Act base-year costs are adjusted by the IPD, as listed in the SCO’s annual claiming instructions, and are properly offset against the district’s current-year Rodda Act direct costs claimed.

**FINDING 2—
Unclaimed indirect costs
on contract services**

The district did not claim indirect costs on contract services for FY 2008-09 and FY 2009-10, resulting in an understatement of \$3,795. We determined allowable indirect costs by multiplying allowable contract services by the indirect cost rates the district claimed, which agreed with the indirect cost rates approved by the California Department of Education (CDE).

The parameters and guidelines allow indirect cost rates provisionally approved by the CDE. The CDE indirect cost rates apply to total direct costs (salaries and benefits, materials and supplies, and contract services). The error occurred because the district followed the claiming instructions identified on Form 1 for the Collective Bargaining Program that inadvertently excluded contract services from the calculation of indirect costs. The Collective Bargaining Program claiming instructions have since been corrected.

The following table summarizes the calculation of unclaimed indirect costs on contract services by fiscal year:

Description	Fiscal Year		Total
	2008-09	2009-10	
Allowable contract services	\$ 33,971	\$ 4,230	
Claimed indirect cost rate	10.20%	7.79%	
Review adjustment	<u>\$ 3,465</u>	<u>\$ 330</u>	<u>\$ 3,795</u>

Recommendation

We recommend that the district follow the updated guidance in the claiming instructions for calculating indirect costs on contract services.